

INDIANA UNEMPLOYMENT INSURANCE BOARD

2013 ANNUAL REPORT

SCOTT B. SANDERS, COMMISSIONER



INDIANA
WORKFORCE
DEVELOPMENT
AND ITS **WorkOne** CENTERS

OCTOBER 2014

10 N. Senate Avenue
Indianapolis, IN 46204
www.in.gov/dwd



Unemployment Insurance Board

The Indiana Unemployment Insurance Board (Board) is established by law and consists of nine (9) members appointed by the Governor, representing a cross-section of the State's workforce.

There are four (4) members who represent the interests of organized labor; two (2) members who represent the interests of small employers; two (2) members who represent the interests of large employers; and one (1) member who represents the State and the public-at-large. As of January 1, 2013, the Board consisted of the following:

- President, Paula Presnoples - Public-At-Large
- Vice-President, Kevin Tully - Labor
- Member, Joseph A. Evans - Labor
- Member, David Collins - Labor
- Member, Otto Prow - Labor
- Member, Randy Maxwell - Small Employer
- Member, Peter Bitar - Small Employer
- Member, Kent Tolliver - Large Employer
- Member, Stephen Gootee - Large Employer

One of the Board's responsibilities under IC 22-4-18-2 is to present the Annual Report to the Governor highlighting the status of Indiana's Unemployment Insurance (UI) program, together with recommendations for maintaining the solvency of the UI trust fund. Additionally, this report discusses some recent activity within the UI program and certain related statistical information.



EXECUTIVE SUMMARY

Unemployment Insurance (UI) programs were established in 1938 to cushion the impact of an economic downturn for unemployed workers and bring economic stability to businesses and communities. Premiums are collected from employers each quarter and held for the state in the UI trust fund by the U.S. Treasury. Unemployment benefits to eligible claimants are paid from the trust fund for each week of eligibility.

The trust fund continued to gain positive ground in 2013 as revenues to the fund exceeded benefit expenditures by \$219 million. An increase in the principal repayment as a result of increased federal unemployment tax (FUTA) on Indiana employers contributed to the overall reduction of Indiana's loan balance by \$366 million for the year. 2013 marks the second consecutive year of net gains to the trust fund as it continued the trend toward solvency.

UI premium receipts from merit rated employers were \$719.7 million for 2013, a year-over-year decrease of -3%. Payments from reimbursable (government or non-profit) employers continued to significantly decrease by -24% for the year and -58% for the two year period of 2012 and 2013. Employers paid an average tax rate of 3.04% or \$289 per employee, a per employee decrease of \$35 from 2012.

Initial claims for State unemployment benefits experienced a sharp decline in 2012 as the state continued its economic recovery. Initial claims for the year decreased 15% (57,000) to 315,000 while first payments made to new claimants decreased by more than 21% (38,000) to 142,500. Indiana workers received a total of 2.2 million weeks of benefits in 2013 with an average weekly benefit amount of \$243 and average duration of receiving benefits at 15.6 weeks.

The federal legislation authorizing Emergency Unemployment Compensation (EUC) and federally funded State Extended Benefits (EB) program expired in December 2013. With the expiration of EUC and EB, UI claimants are currently eligible for a maximum of 26 weeks of benefits under State law.

The total number of weeks paid to UI claimants receiving federal benefit payments decreased from 2.2 million to 1.2 million, with an average weekly benefit of \$258. Payments to EUC/EB claimants decreased 57% to \$310 million in 2013 and were \$1.7 billion below the 2010 peak of \$2.0 billion.

Over the year, 23 states, including Indiana, borrowed from the federal government to pay unemployment benefits. Nationwide, trust fund indebtedness totaled \$30.8 billion at the end of 2013, with Indiana's debt totaling \$1.36 billion. Seven states have chosen to issue a combined \$10.6 billion in public bonds since 2010 to pay off their federal loan and eight states have fully repaid their trust fund debt.

Interest on the trust fund loan accrued at 2.58% in 2013, a reduction from 2.94% in 2012. Indiana's interest payment for the 12 months ending September 30, 2012 was made in late September in the amount of \$43.1 million and was funded through an employer surcharge of 7% of premiums due.

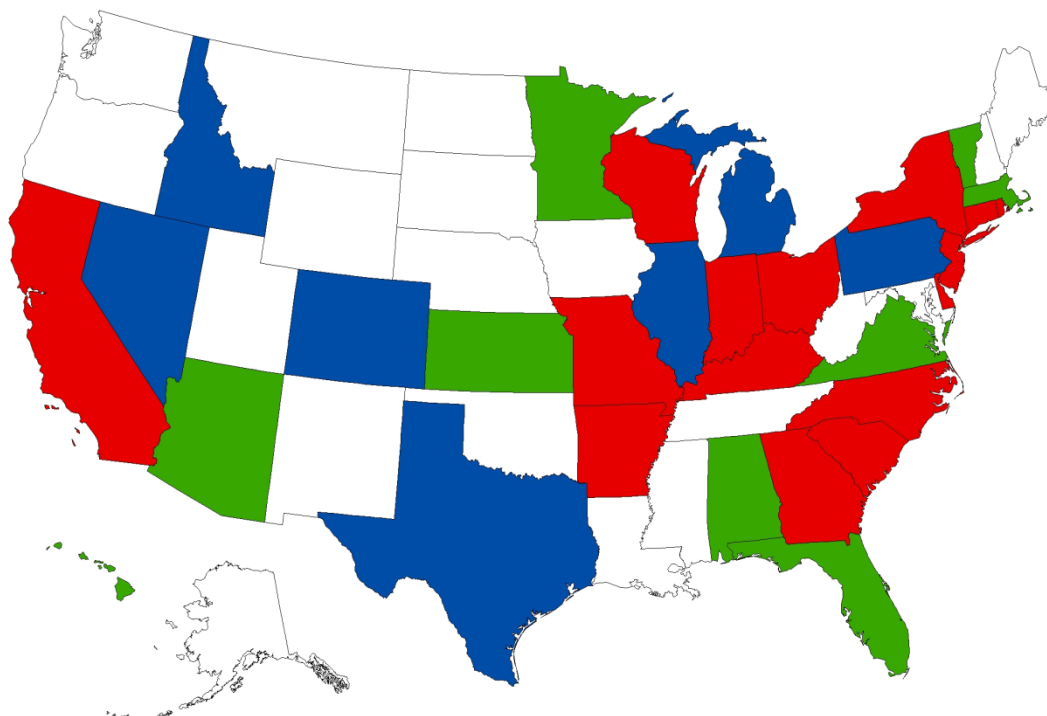
For the twelve-month period ending September 30, 2013, DWD employed 418 staff and utilized \$52.6 million to administer Indiana's Unemployment Insurance program.

STATES' TRUST FUND INDEBTEDNESS

At the end of 2013, Indiana was one of 17 states with an outstanding loan from the federal government. Nationwide, trust fund indebtedness totaled \$30.8 billion at the end of 2013, with Indiana's debt totaling \$1.36 billion. The average state debt was \$1.34 billion. Seven states, Colorado, Idaho, Illinois, Michigan, Nevada, Pennsylvania and Texas have chosen to issue a combined \$10.6 billion in public bonds since 2010 to pay off their federal loan and eight states have fully repaid their trust fund debt.

The National Map of Unemployment Insurance Trust Fund Indebtedness December 31, 2013

-Title XII Federal Loan **-Issued Public Bonds** **-Repaid Federal Loan**



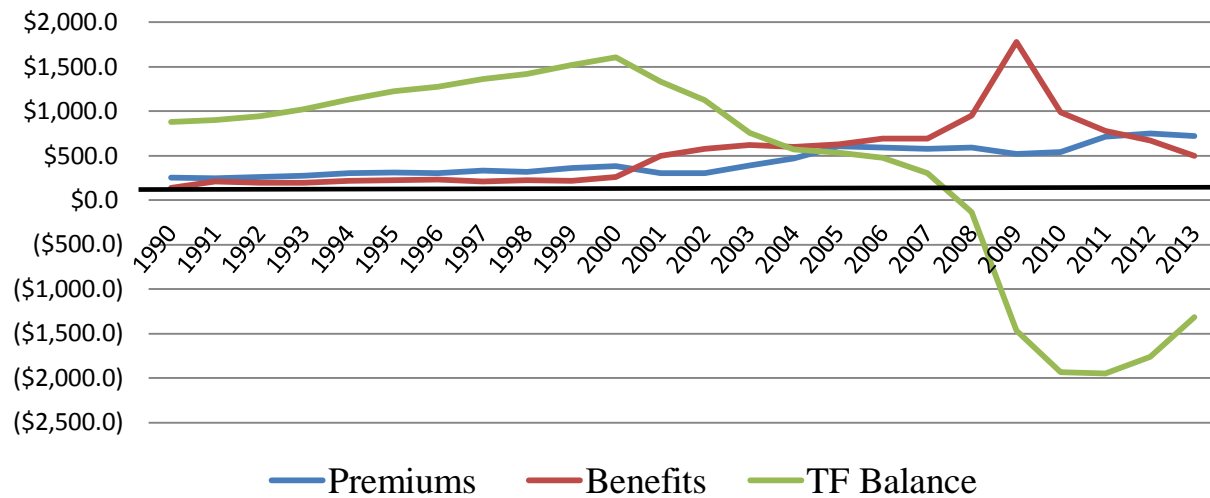
TRUST FUND OVERVIEW

The trust fund continued to gain positive ground in 2013 as revenues to the fund exceeded benefit expenditures by \$219 million. An increase in the principal repayment as a result of increased federal unemployment tax (FUTA) on Indiana employers contributed to the overall reduction of Indiana's loan balance by \$366 million for the year. 2013 marks the second consecutive year of net gains to the trust fund as it continued the trend toward solvency.



Unemployment Insurance Trust Fund

(\$ in millions)



Indiana first began borrowing funds from the federal government to continue paying UI benefits in late 2008 and continued through 2013. The state's loan balance peaked at \$2.2 billion in 2011, has consistently decreased since then. Indiana's year end trust fund loan balance of \$1.38 billion was \$366 million lower than the previous year.

Interest on the trust fund loan accrued at 2.58% in 2013, a reduction from 2.94% in 2012. Indiana's interest payment for the 12 months ending September 30, 2013 was made in late September in the amount of \$43.1 million. The interest payment continues to be funded through the UI employer surcharge, which was 7% of premiums due for each employer and generated \$47.5 million in revenue for the year.

As a result of Indiana's continued outstanding loan, employers experienced a further reduction in their federal unemployment tax credit. Indiana's effective FUTA tax rate for 2013 was 1.5% and amounted to a \$63 per employee increase from the base effective rate of 0.6%. This FUTA penalty resulted in \$162 million being applied directly to the principal balance of the loan and contributed to the overall \$366 million decrease in the outstanding loan balance.

FUTA and Interest Surcharge (millions)	2010	2011	2012	2013	1 Year % Change
FUTA Penalty	\$0	\$55	\$104	\$162	56%
Interest Surcharge Revenue	\$0	\$78	\$58	\$48	-18%
Interest Payment - (Oct 1 - Sept 30)	\$0	\$60	\$61	\$43	-29%

Current projections indicate that Indiana should have sufficient UI premium revenues to fund both ongoing benefit expenses as well as debt service payments to the federal government, allowing for the debt to be fully repaid, with interest, in 2017.



Trust Fund Premiums (millions)	2010	2011	2012	2013	'12-'13 % Change
Premiums from Merit Employers	\$520.6	\$702.5	\$738.3	\$719.7	-3%
Payments from Reimbursable Employers	\$67.1	\$61.8	\$40.8	\$31.0	-24%

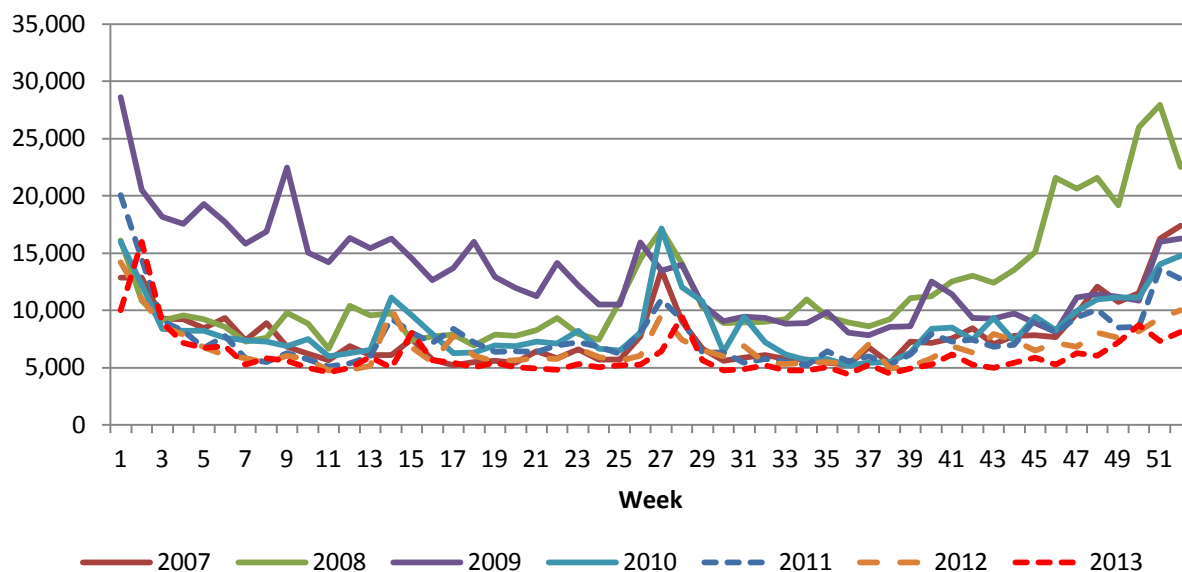
Trust Fund Benefits (millions)	2010	2011	2012	2013	'12-'13 % Change
Benefits Paid - Merit Employers	\$991.2	\$783.7	\$650.3	\$500.3	-23%
Benefits Paid - Reimbursable Employers	\$62.8	\$53.1	\$41.6	\$28.2	-32%

UNEMPLOYMENT INSURANCE BENEFITS

Initial Claims

Indiana's economic recovery continues to drive down initial claims activity and allow for trends that are 23% below pre-recession levels in 2007. Initial claims for the year were down by 15% (57,000) to just over 315,000, a sharp contrast to the height of the economic downturn when initial claims reached 704,500 in 2009. First payments to new claimants likewise decreased in 2013 by more than 21% (38,000) to 142,500. The following chart depicts weekly initial claims from 2007 through 2013.

Weekly Initial Claims





State Continued Claims

Total State UI Benefits paid in 2013 were \$500.3 million to employees of merit rated employers. This was a 23% (\$150 million) decrease from 2012, with the following main contributors:

1. Continued improvement in Indiana's economy: Indiana added 51,500 private sector jobs in 2013; the total labor force grew to 3.18 million and total wages paid to Indiana employees increased by \$3.2 billion.
2. Continued savings from legislative changes: Law changes impacting the weekly benefit amount and elimination of benefit eligibility for individuals on a regularly scheduled vacation. In addition, the agency implemented its "Jobs for Hoosiers" program during the third quarter.

During 2013, 2.2 million weeks of benefits were paid at an average of \$245 per week. The average duration for receiving unemployment benefits was 15.6 weeks.

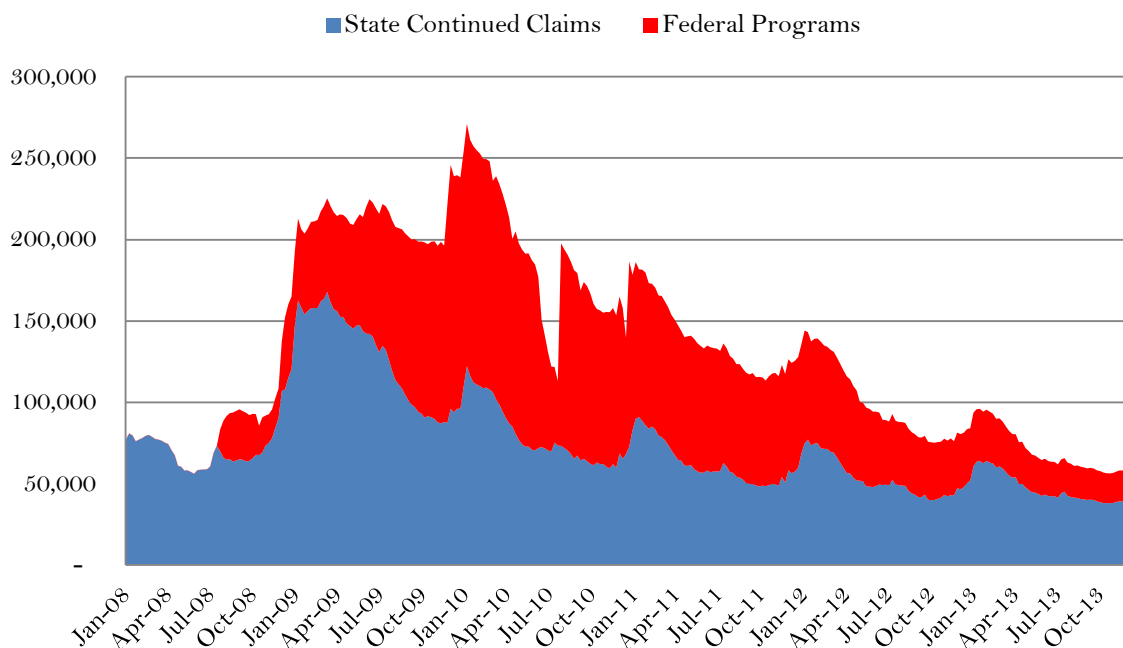
Emergency Unemployment Compensation (EUC) and State Extended Benefits (EB)

The federal legislation authorizing Emergency Unemployment Compensation (EUC) and federally funded State Extended Benefits (EB) program expired in December 2013. With the expiration of EUC and EB, UI claimants are currently eligible for a maximum of 26 weeks of benefits under state UI law.

The total number of weeks paid to UI claimants receiving federal benefit payments decreased from 2.2 million to 1.2 million, with an average weekly benefit of \$258. Payments to EUC/EB claimants decreased 57% to \$310 million in 2013 and were \$1.7 billion below the 2010 peak of \$2.0 billion.

In response to the changes in EUC and in an effort to help individuals return to work faster, Indiana enacted House Enrolled Act 1457 in 2013, which created the "Jobs for Hoosiers" program. This program requires all UI claimants to visit a WorkOne office after their fourth week of UI benefits. As part of this program, claimants are introduced to the variety of job search, career counseling, and job training assistance that is available through WorkOne and has proven beneficial in helping individuals become reemployed.

State and Federal UI Claims Paid



UNEMPLOYMENT INSURANCE PREMIUMS AND OTHER EXPENDITURES

UI Premiums

Funding for UI benefits is provided through premiums paid by Indiana employers. UI premium receipts from merit rated employers were \$719.7 million for 2013, a year-over-year decrease of -3%, while payments from reimbursable (government or non-profit) employers saw a continued significant decrease of -24% for the year and -58% for the two year period of 2012 and 2013. Employers paid an average tax rate of 3.04% or \$289 per employee, a per employee decrease of \$35 from 2012. These decreases in UI taxes can be largely attributed to the improving economy and employers seeing an overall shift to lower merit rates as a result of fewer employees collecting UI benefits. Indiana's overall State unemployment tax costs to employers amounted to 0.79% of total wages paid, which ranks 34th among the 53 States and Territories.

UI Premium Rate Schedules

The premium rating system provides variable premium rates for employers based on their individual unemployment account history. A ratio is calculated for each merit employer based on their experience account balance (premiums paid less benefit charged) and the most recent 36 months of taxable wages reported.

This ratio is then applied to a rate schedule established in statute to arrive at each employer's merit rate for the year. Employers with a credit balance (more premiums collected than benefits paid) receive a lower rate while debit balance employers (more benefits paid than premiums collected) receive a higher rate.



In 2013, rate schedule E was used to determine employer merit rates; and as mandated under HEA 1450 - 2011, will continue to be used through the year 2020. The applicable rate was paid on the first \$9,500 of employee wages (taxable wage base). The table below compares Indiana's UI rates to neighboring states.

State	Taxable Wage Base	Minimum Rate	Maximum Rate	Minimum Premium Per Employee	Maximum Premium Per Employee
Indiana	\$9,500	0.5%	7.4%	\$47.50	\$703.00
Illinois	\$12,900	0.55%	8.95%	\$70.95	\$1,154.55
Kentucky	\$9,300	1.0%	10.0%	\$93.00	\$930.00
Michigan	\$9,500	0.06%	11.05%	\$5.70	\$1,049.75
Ohio	\$9,000	0.3%	8.4%	\$27.00	\$756.00

Statutory provisions may affect employer premium rates, such as the number of years or months an employer has been subject to Indiana's law, recent reporting activity, and delinquent report/premium status. Other factors, including benefits paid to former employees, voluntary payments, and the complete or partial sale and/or purchase of other businesses by the employer, can also impact each employer's rate.

The table on the following page contains the distribution of Indiana employers by premium rate.



2013 DISTRIBUTION OF PREMIUM RATES

Experience Factor	Current Rate Schedule E	Number of Employers	Percent of All Employer Accounts	Cumulative Number of Employer Accounts	Cumulative Percent of Employer Accounts to All Employer Accounts	Taxable Payroll Previous Year (\$000)	Percent of All Taxable Payroll	Cumulative Taxable Payroll of Employers (\$000)	Percent of Taxable Payroll of Employers to Taxable Payroll of All Employers	Maximum Annual Tax per Employee
Demographics of Credit Balance Employers										
3.00 & over	0.5%	36,134	26.5%	36,134	26.5%	\$2,187,416	9.2%	\$2,187,416	9.2%	\$47.50
2.80-2.99	0.7%	4,726	3.5%	40,860	29.9%	\$712,780	3.0%	\$2,900,196	12.2%	\$66.50
2.60-2.79	0.9%	4,622	3.4%	45,482	33.3%	\$1,102,740	4.6%	\$4,002,936	16.8%	\$85.50
2.40-2.59	1.2%	4,125	3.0%	49,607	36.3%	\$1,183,923	5.0%	\$5,186,858	21.8%	\$114.00
2.20-2.39	1.4%	4,384	3.2%	53,991	39.5%	\$1,348,712	5.7%	\$6,535,571	27.4%	\$133.00
2.00-2.19	1.6%	1,020	0.7%	55,011	40.3%	\$1,384,388	5.8%	\$7,919,959	33.3%	\$152.00
1.80-1.99	1.8%	2,140	1.6%	57,151	41.8%	\$1,309,178	5.5%	\$9,229,137	38.8%	\$171.00
1.60-1.79	2.0%	1,897	1.4%	59,048	43.2%	\$1,541,155	6.5%	\$10,770,292	45.2%	\$190.00
1.40-1.59	2.3%	1,588	1.2%	60,636	44.4%	\$912,060	3.8%	\$11,682,352	49.1%	\$218.50
1.20-1.39	2.5%	1,287	0.9%	61,923	45.3%	\$914,914	3.8%	\$12,597,266	52.9%	\$237.50
1.00-1.19	2.7%	1,241	0.9%	63,164	46.2%	\$920,419	3.9%	\$13,517,685	56.8%	\$256.50
0.80-0.99	2.9%	1,058	0.8%	64,222	47.0%	\$705,700	3.0%	\$14,223,385	59.7%	\$275.50
0.60-0.79	3.1%	1,041	0.8%	65,263	47.8%	\$683,848	2.9%	\$14,907,233	62.6%	\$294.50
0.40-0.59	3.4%	863	0.6%	66,126	48.4%	\$426,958	1.8%	\$15,334,191	64.4%	\$323.00
0.20-0.39	3.6%	844	0.6%	66,970	49.0%	\$497,310	2.1%	\$15,831,501	66.5%	\$342.00
0.00-0.19	3.8%	991	0.7%	67,961	49.8%	\$440,683	1.9%	\$16,272,184	68.3%	\$361.00
Total Credit Balance Employers		67,961	49.8%			\$16,272,184	68.3%			
Demographics of Debit Balance Employers										
0.00-1.50	4.9%	4,342	3.2%	72,303	52.9%	\$1,504,157	6.3%	\$17,776,341	74.6%	\$ 465.50



1.51-3.00	5.0%	2,923	2.1%	75,226	55.1%	\$867,521	3.6%	\$18,643,863	78.3%	\$ 475.00
3.01-4.50	5.3%	2,241	1.6%	77,467	56.7%	\$550,435.00	2.3%	\$19,194,298	80.6%	\$ 503.50
4.51-6.00	5.5%	1,745	1.3%	79,212	58.0%	\$385,059.74	1.6%	\$19,579,358	82.2%	\$ 522.50
6.01-8.00	5.7%	1,903	1.4%	81,115	59.4%	\$522,673.33	2.2%	\$20,102,031	84.4%	\$ 541.50
8.01-10.0	6.0%	1,498	1.1%	82,613	60.5%	\$357,779.61	1.5%	\$20,459,811	85.9%	\$ 570.00
10.01-12.00	6.4%	1,207	0.9%	83,820	61.4%	\$309,158.80	1.3%	\$20,768,969	87.2%	\$ 608.00
12.01-14.00	6.8%	1,001	0.7%	84,821	62.1%	\$207,120.41	0.9%	\$20,976,090	88.1%	\$ 646.00
14.01-16.00	7.1%	817	0.6%	85,638	62.7%	\$173,929.12	0.7%	\$21,150,019	88.8%	\$ 674.50
16.01 & Over	7.4%	8,161	6.0%	93,799	68.7%	\$1,498,649.05	6.3%	\$22,648,668	95.1%	\$ 703.00
Total Debit Balance Employers		25,838	18.9%			\$6,376,484	26.8%			
Governmental										
Total Specially Rated Employers	1.6%	56	0.0%	93,855	68.7%	\$5,376	0.0%	\$22,654,044	95.1%	\$ 152.00
New Employers										
Total New Employers	2.5%	42,730	31.3%	136,585	100.0%	\$1,160,788	4.9%	\$23,814,832	100.0%	\$ 237.50
Total All Subject Employers		136,585	100.0%			\$23,814,832	100.0%			

UNEMPLOYMENT SYSTEM STATISTICS

Benefits	2012	2013	One Year Change
Benefits Paid (000)	\$650,300	\$500,325	(\$149,975)
Initial Claims	372,007	332,099	(39,908)
First Payments	180,558	142,481	(38,077)
Weeks Claimed (000)	2,875	2,531	(344)
Weeks Compensated (000)	2,451	2,223	(228)
Exhaustions	81,173	49,056	(32,117)
Exhaustion Rate	45.5%	31.4%	-14.1%
Average Duration (weeks)	14	16	2
Average Weekly Benefit Amount	\$284	\$243	(\$41)



AWBA as % of Avg. Weekly Wage	36.3%	30.7%	-5.6%
Avg. Benefits per First Payment	\$3,748	\$3,729	(\$19)

Premiums

State Revenues (000)	\$ 738,300		\$ (738,300)
Total Wages (000)	\$111,829,533	\$115,029,242	\$3,199,709
Taxable Wages (000)	\$23,874,720	\$92,949,542	\$69,074,822
Average Weekly Wage	\$783.00	\$792.61	\$9.61
Avg. Tax Rate on Taxable Wages	3.14%	3.04%	-0.10%
Avg. Tax Rate on Total Wages	0.83%	0.79%	-0.04%
Taxable Wage Base	\$9,500	\$9,500	\$0

Employment

Insured Unemployment Rate	1.7%	1.7%	0.0%
Total Unemployment Rate	8.4%	7.5%	-0.9%
Total Unemployed (000)	264,000	239	(263,761)
Insured Unemployed (000)	104,200	72,300	(31,900)
Reciency Rate	39%	30%	-9%
Civilian Labor Force (000)	3,150	3,180	30
Subject Employers (000)	130,000	128	(129,872)

UNEMPLOYMENT INSURANCE OPERATIONS

The Department of Workforce Development administers the UI program for the State of Indiana through a federal UI administration grant. Congress appropriates funding for UI administration on a federal fiscal year basis and distributes these funds to states through an allocation resource known as the Resource Justification Model (RJM). The RJM takes into account the staff costs and processing capacity of each state's system, as well as non-personnel costs such as facilities and postage, and provides funding accordingly.

Indiana's total UI administration expenditures for the previous three years are as follows:

- For the twelve-month period ending September 30, 2011, UI program total expenditures were \$58,983,876 for the twelve-month period.
- For the twelve-month period ending September 30, 2012, UI program total expenditures were \$57,740,295 for the twelve-month period.
- For the twelve-month period ending September 30, 2013, UI program total expenditures were \$52,593,368 for the twelve-month period.



Expenditures for each year listed are within budget and funding parameters and also include additional funding that was provided for the administration of the federal EUC program.

Indiana's UI operations include divisions for benefit adjudication, lower authority appeals, higher authority appeals, employer tax administration, and benefit enforcement.

Benefit Adjudication

The UI Benefit Adjudication team is responsible for determining the eligibility of each claim for UI benefits that is filed with the agency. All UI benefits are filed through DWD's website. Among the many measures that determine the effectiveness of adjudication operations is "first payment timeliness," meaning the number of days between the initial claim filing and the claimant receiving their first benefit payment. Indiana improved this measure with more than 83% of claimants receiving their first payment in 21 days or less, during the measurement period, compared to 54% in 2012 and 80% in 2011. Lower volumes of claims filing and the end of EUC put Indiana in great position to increase timely benefit determinations even further in 2014.

UI claimants receive weekly benefits payments through an electronic deposit to a Visa debit card. Claimants can access these funds for free in a variety of ways including a network of ATM's, bank teller withdrawals, point of sale transactions, or transfers to their own bank account. These cards are free to claimants and governed by an agreement that ensures free access to funds.

Appeals

UI Appeals is responsible for processing claimant and employer appeals of Determinations of Eligibility, which are generated by the UI Benefit Adjudication team. Administrative Law Judges (ALJ) conduct hearings on the appealed determinations and render decisions based upon the information presented in the hearing and UI law.

UI Appeals timeliness improved in 2012, while quality remained consistently strong. Appeals timeliness measures the age of completed cases by calculating how many days lapse between the date of the appeal and the date a decision is mailed to the parties. In order to meet the timeliness measure, the department should have 60% of cases completed within 30 days and 80% of cases completed within 45 days. Appeals began 2013 falling short of these measures, but met the 45 day mark in each of the last 3 months of 2013.

The final measurement pertains to the quality of hearings and decisions rendered. In 2013, Appeals maintained quality scores well above the 85% recommended metric and consistently remained above or near the national average.

Review Board

The UI Review Board accepts appeals from parties dissatisfied with decisions made by the ALJ in UI appeals. The Review Board reviews the ALJ's decisions for accuracy in legal theory and application. Decisions made by the Review Board can be appealed directly to the Indiana Court of Appeals.



The Review Board reviewed 6,526 cases in 2013 which is consistent with the average workload in recent years. Based on the Department of Labor's average case age metrics for 2013, the Review Board led the country among states with caseloads of similar size in average case age. The Review Board has been leading the country in this respect for the past seven years.

Employer Tax Administration

This division is responsible for collecting and recording employer transactions and assisting Indiana's employers in the management of their UI liability.

Indiana's UI tax laws require liable employers to provide quarterly wage reports for all employees that received wages in the quarter and to self report liabilities due. The tax administration division provides enforcement operations for Indiana's UI tax laws.

Benefit Integrity Enforcement

Benefit Payment Control (BPC) was formed to ensure UI benefit payment integrity. BPC is comprised of three separate teams: Investigations, Overpayment/Collections and New Hire/Cross Match.

The Investigations team is responsible for the investigation of possible fraudulent benefits paid to claimants, identity theft and forgeries, and the prosecution of those meeting the criteria. This unit is federally mandated to deter, investigate, and prevent improper payments.

The Overpayment /Collections team is responsible for the collection of overpayments owed by claimants, the Tax Intercept program, agreements and bankruptcies.

The New Hire/Cross Match team is responsible for matching wage record information received from Indiana employers to benefits paid data. This unit is successful in identifying UI claimants that were both claiming benefits and earning wages in the same period and instigating restitution with the UI claimant in order to recoup the UI benefits paid.

The BPC unit has been especially challenged by the great recession, as unfortunately, the extended benefits offered attracted benefit fraud. The increase in fraud resulted in a backlog in fraud investigations. However, 2013 was a strong year in reducing this backlog as the number of outstanding cases decreased by nearly 50% over the year. Additionally, the implementation of the "Jobs for Hoosiers" program is seen by the agency as a major fraud detection and prevention tool.

SPECIAL EMPLOYMENT AND TRAINING SERVICES FUND

In accordance with IC 22-4-25, The Special Employment and Training Services Fund is comprised of interest on delinquent premiums and penalties collected from employers. In calendar year 2013, the fund received revenues of \$15,142,535.



As of December 31, 2013, the available balance of the fund was \$5,142,406. Disbursements and resolution adjustments from the fund included \$14,153,505 to the UI trust fund in accordance with IC 22-4-25-1(b), \$3,532,031 in accordance with IC 22-4-25-1(c), as well as miscellaneous board expenditures and reimbursement to the agency for collection efforts associated to the fund.